LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 7008 **NOTE PREPARED:** Jan 19, 2013
BILL NUMBER: HB 1323 **BILL AMENDED:**

SUBJECT: Small Employer Qualified Wellness Program Tax Credit.

FIRST AUTHOR: Rep. Morrison **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State
DEDICATED
FEDERAL

Summary of Legislation: The bill provides that the Small Employer Qualified Wellness Program tax credit (Program) is extended for taxable years beginning after December 31, 2013, and before January 1, 2020. It expands the program to include small employers with not more than 250 eligible employees. It eliminates the carryforward of any unused tax credit under the program for expenditures incurred after December 31, 2013. It imposes a maximum of $5,000 on the amount of the credit that a small employer may claim in a taxable year. It provides that an aggregate of not more than $5.0 M in tax credits may be claimed under the program during any budget biennium after December 31, 2013. It repeals a redundant definition of "pass through entity".

Effective Date: January 1, 2014.

Explanation of State Expenditures: *Indiana State Department of Health (ISDH):* For purposes of this tax credit, the ISDH is required to establish minimum standards for use by a small employer in establishing a wellness program to improve the health of employees. The ISDH is also to establish criteria to determine if a program meets the minimum standards and a process for certification of a small-employer wellness program. The ISDH is required to review programs submitted for certification based on the developed criteria. If a program meets the standards, ISDH is to certify the program as a qualified wellness program for the purposes of the tax credit. ISDH was performing these duties until December 31, 2011, when the tax credit expired. The ISDH's current level of resources should be sufficient to perform these tasks.

Department of State Revenue (DOR): The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the extension of the tax credit. The DOR's current level of resources should be sufficient to implement these changes.

Indiana Economic Development Corporation (IEDC): The bill provides that credits claimed for costs incurred starting January 1, 2014 will require IEDC approval. Along with the application to IEDC, it requires the taxpayer to include a copy of ISDH certification or a pending certification status. It requires IEDC to approve the application if certain conditions are met. The IEDC's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: *Summary:* The bill establishes a new tax credit for expenses relating to small-employer qualified wellness programs. The revenue loss from the new credit could potentially total $1.0 M annually beginning in FY 2015. This estimate is based on actual credit claims under the existing wellness program expense credit adjusted for the larger eligible employer group targeted by the proposed credit and the larger credit rate. The IEDC is required to approve the tax credit. The bill limits that total tax credits the IEDC may approve to $5.0 M per biennium beginning with the FY 2014-FY 2015 biennium. The tax credit expires on December 31, 2019.

The bill also eliminates the expiration date for carry forward of credits under the current qualified wellness program expense credit (see explanation below). Under current statute, credits under the current credit program for expenses incurred prior to January 1, 2012, may be carried forward and claimed only in tax years 2014 and 2015. The bill eliminates the expiration of the carry forward period. The impact of this change is indeterminable.

Background: Proposed Credit - The tax credit would apply to expenses of employers with 250 or fewer employees for a qualified wellness program. The credit would apply to costs during tax years 2014 to 2019. The credit would equal the lesser of (1) 100% of the cost incurred by the taxpayer or (2) $5,000. The credit applies to costs incurred during the taxable year. The credit is nonrefundable and may not be carried forward or carried back. The wellness program must be certified by the ISDH and tax credits for program expenses must be approved by the IEDC.

Existing Wellness Program Tax Credit - Current statute provides for a nonrefundable tax credit for expenses of employers of 100 or fewer employees for a qualified wellness program. However, new credits can no longer be claimed under this credit program. Only credits for expenses incurred prior to January 1, 2012, that are being carried forward may be claimed during tax years 2014 and 2015. This tax credit was equal to 50% of the cost incurred by the taxpayer in providing the wellness program during the taxable year. In tax year 2010, 183 individuals claimed $386,008 in this credit on the individual income tax return.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: State Department of Health, Indiana Department of Revenue, Indiana Economic Development Corporation.

Local Agencies Affected:

Information Sources: OFMA, Income Tax and Employment & Wage Database.

Fiscal Analyst: Randhir Jha, 317- 232-9556.